

SUBJECT: Business and Industry Guaranteed Loan Program
Personal and Corporate Guarantees

TO: State Directors, Rural Development

ATTN: Business Programs Directors

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance and clarification concerning when to obtain secured personal or corporate guarantees.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 4279-B, section 4279.149(b), states: "Personal and corporate guarantees for those owning greater than 20 percent of the borrower will be required where legally permissible, except as provided for in this section. Guarantees of parent, subsidiaries, or affiliated companies and secured guarantees may also be required."

In the past, the Agency has accepted unsecured personal or corporate guarantees from those persons or entities owning 20 percent or more of a Business and Industry Guaranteed borrower. In the future, any required personal or corporate guarantee obtained must be secured with assets that have demonstrable monetary value. Exceptions to the requirement of a secured personal or corporate guarantee must be requested by the lender and concurred by the Agency approval official on a case-by-case basis. In order to obtain an exception, the lender must document that other collateral, equity, cash flow, and profitability indicate an above average ability to repay 100 percent of the loan. A guarantee of payment is not equivalent to a secured personal or corporate guarantee, because it is restricted in coverage to limited situations. The purpose of a secured personal or corporate guarantee is to provide additional security for any situation.

EXPIRATION DATE:
April 30, 2003

FILING INSTRUCTIONS:
Preceding RD Instruction 4279-B

If you have any questions, please contact the Business and Industry Division Processing Branch at (202) 690-4103.

(Signed by John Rosso)

JOHN ROSSO
Administrator